

CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ESSEXVILLE	County BAY
Fiscal Year End 6/30/07	Opinion Date 11/30/07	Date Audit Report Submitted to State 12/31/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

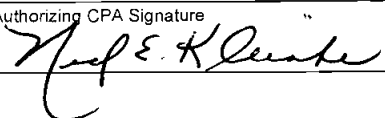
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) QUAST, JANKE AND COMPANY		Telephone Number 989-892-4549		
Street Address 1010 N JOHNSON		City BAY CITY	State MI	Zip 48708
Authorizing CPA Signature 		Printed Name NED E KLEINKE		License Number 1101016193

CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL STATEMENTS
FISCAL YEAR ENDED June 30, 2007

CITY OFFICIALS - As of June 30, 2007

Mayor	Thomas Rehmus
Council Member	Ronald Graham
Council Member	Michael Barrow
Council Member	Dr. Richard Link
Council Member	William Hydorn
Council Member	Mary Chavalia
Council Member	John Connelly
Treasurer	Fran DeWyse
Clerk	Cynthia Fournier
Attorney	Gerald Pergande
Director of Public Safety	Tim Weiler
City Manager	Dale Majerczyk
Superintendent of Public Works	Dan Hansford

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Quast, Janke and Company, P.C.
Certified Public Accountants

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American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

INDEPENDENT AUDITOR'S REPORT

November 30, 2007

To the City Council
The City of Essexville
Essexville, Michigan 48732

We have audited the financial statements of the governmental activities, business-type activities, and major funds as of and for the year ended June 30, 2007 which collectively comprise the City of Essexville's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business-type activities, and each major fund as of June 30, 2007, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council
The City of Essexville
November 30, 2007
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Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY


Certified Public Accountants, P.C.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

This section of the City of Essexville's annual Financial Report presents the Management Discussion and Analysis (MDA) of the City's financial activities during the fiscal year ended June 30, 2007. It is intended to be read as part of the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Essexville exceeded liabilities at June 30, 2007, by \$1,774,608. Of this amount all is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$98,704 during the year. Of this amount the assets of our governmental activities increased \$101,835 and the assets of our business-type activities decreased by \$3,131.

USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

Other Supporting Information provides detailed information about the General Fund and Non-Major Governmental Funds.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities - the Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net assets, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-Type Activities - This activity includes the water and sanitary sewer systems and the rubbish and trash fund. These activities are financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about individually significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has two kinds of funds:

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Governmental Funds

The Governmental Funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary Funds

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund includes the Water and Sewer Funds, considered to be major funds of the City, and the Rubbish and Trash Fund. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2007.

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
ASSETS			
Current and other assets	\$ 1,715,577	\$ 570,744	\$ 2,286,321
Capital assets net of accumulated depreciation	<u>3,042,451</u>	<u>2,368,475</u>	<u>5,410,926</u>
Total Assets	<u>4,758,028</u>	<u>2,939,219</u>	<u>7,697,247</u>
LIABILITIES			
Current liabilities	364,000	175,911	539,911
Long-term liabilities	<u>4,277,728</u>	<u>1,105,000</u>	<u>5,382,728</u>
Total Liabilities	<u>4,641,728</u>	<u>1,280,911</u>	<u>5,922,639</u>
NET ASSETS			
Invested in capital assets net of related debt	(1,496,685)	819,808	(676,877)
Unrestricted	<u>1,612,985</u>	<u>838,500</u>	<u>2,451,485</u>
Total Net Assets	<u>\$ 116,300</u>	<u>\$ 1,658,308</u>	<u>\$ 1,774,608</u>

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$2,451,485.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

The following analysis provides the changes in the net assets for the City's governmental and business-type activities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
REVENUES:			
Charges for services	\$ 192,789	\$1,166,117	\$1,358,906
GENERAL REVENUES:			
Property taxes	1,264,195	62,519	1,326,714
State shared revenue	640,682	-	640,682
Unrestricted investment earnings	82,641	22,783	105,424
Miscellaneous	<u>24,865</u>	<u>7,677</u>	<u>32,542</u>
Total Revenues	<u>2,205,172</u>	<u>1,259,096</u>	<u>3,464,268</u>
PROGRAM EXPENSES:			
Legislative	14,160	-	14,160
General government	457,333	-	457,333
Public safety	537,922	-	537,922
Public works	703,697	-	703,697
Recreational/cultural	75,379	-	75,379
Interest	190,794	28,182	218,976
Water & Sewer	-	1,234,045	1,234,045
Depreciation	<u>124,052</u>	<u>-</u>	<u>124,052</u>
Total Expenses	<u>2,103,337</u>	<u>1,262,227</u>	<u>3,365,564</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 101,835</u>	<u>\$ (3,131)</u>	<u>\$ 98,704</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Essexville completed its year, its governmental funds reported a total fund balance of \$1,292,883, which is less than the \$1,301,064 total fund balance at June 30, 2006.

The General Fund, the operating fund for the City, ended FY06 with an \$966,126 balance compared to the prior year ending fund balance of \$884,455. The Major Street Fund Balance decreased by \$91,319. The Debt Service Fund Balance increased by \$5,657. The Rubbish and Trash Fund was transferred into the enterprise or business-type category since it is funded mostly through customer charges.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water and Sewer Fund, which accounts for the operation and maintenance of the City's water and sewer system, ended FY06 with a \$1,606,399 net asset balance compared to prior year ending net asset balance of \$1,615,283.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2007, the City amended the budget five (3) times. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to cover unplanned expenditures associated with projects that carried over from the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$3,042,451 (net of accumulated depreciation) at June 30, 2007. Capital assets for business-type activities totaled \$2,368,475 (net of accumulated depreciation) at June 30, 2007. See the notes to the financial statements for more information about the City's capital assets.

LONG-TERM DEBT

At year end the City had \$5,744,118 in outstanding bonds and loans. All debt in the business-type and governmental activities is detailed below:

Sewer Fund - State Revolving Fund ("SRF") loan administered by the Michigan Department of Environmental Quality to construct mandated improvements at the City's wastewater treatment plant.

<u>SRF Loan 1997</u>	\$ 1,990,000
Balance June 30, 2006	1,300,000
Balance June 30, 2007	1,205,000

Infrastructure Bonds - In 1999 local voters authorized the City Council to sell up to \$5,000,000 of general obligation bonds restricted for improvements to the City's water, sewer and storm water infrastructure. These bonds were sold in three series: \$2,000,000 (January 11, 2000), \$1,500,000 (February 27, 2001) and \$1,500,000 (February 28, 2002).

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

<u>Infrastructure Bond – 2000 Series</u>	\$ 2,000,000
Balance June 30, 2006	1,300,000
Balance June 30, 2007	1,225,000
 <u>Infrastructure Bond - 2001 Series</u>	 1,500,000
Balance June 30, 2006	1,350,000
Balance June 30, 2007	1,300,000
 <u>Infrastructure Bond - 2002 Series</u>	 1,500,000
Balance June 30, 2006	1,425,000
Balance June 30, 2007	1,350,000
 <u>Combined Series - 2000, 2001, 2002</u>	 5,000,000
Balance June 30, 2006	4,075,000
Balance June 30, 2007	3,875,000

Brownfield Revitalization Loan - In the year 2000 the City received \$112,465 from the State of Michigan Department of Environmental Quality to develop land that was a landfill. The city is obligated to repay the loan, which began July 1, 2005. The loan does not bear interest. The amount due as of June 30, 2007 is \$89,676.

Other Loans – The City was the recipient of an Act 99 loan in the amount of \$ 262,468 and financed the improvements to the new DPW building by obtaining financing from Independent Bank in the amount of \$ 311,974.

ECONOMIC FACTORS

Elected and appointed officials must consider many factors in the preparation and the adoption of the City's annual budget. One important factor affecting the City's budget is the State of Michigan's fiscal health, because a significant source of revenue for the City's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the City has seen a reduction in state shared revenue.

Though the State Legislature held Cities harmless with respect to loss of state shared revenues in the fiscal year, continuing pressure on the State's budget will certainly result in additional reductions in this significant revenue source to the General Fund. The consequences of this revenue reduction is and will be in the future a reduction in services funded by the General Fund with public safety services at risk in the near future without additional state or local revenue to the General Fund.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

By way of comparison, the City received state shared revenues in the amount of \$659,467 in the fiscal year ended June 30, 2006, and \$640,682 in the fiscal year ended June 30, 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the City of Essexville, 1104 Woodside Avenue, Essexville, MI 48732-1627.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2007

		Primary Government	
	Governmental Activities	Business -Type Units	Total
ASSETS:			
Cash	\$ 1,661,885	\$ 464,576	\$ 2,126,461
Accounts receivables	3,175	106,168	109,343
Receivable from State	39,127	-	39,127
Prepaid expense	11,390	-	11,390
Capital assets:			
Land and improvements	824,710	-	824,710
Buildings and improvements	985,735	-	985,735
Infrastructure	744,168	-	744,168
Equipment	263,847	-	263,847
Vehicles	1,185,567	-	1,185,567
Water and sewer	-	2,930,128	2,930,128
Accumulated depreciation	(961,576)	(561,653)	(1,523,229)
Total Assets	<u>4,758,028</u>	<u>2,939,219</u>	<u>7,697,247</u>
LIABILITIES:			
Accounts payable	29,342	60,721	90,063
Accrued expenses	8,741	6,004	14,745
Customer deposits	-	2,800	2,800
Compensated absences	64,527	6,386	70,913
Notes and bonds payable			
Amount due within one year	261,390	100,000	361,390
Amount due more than one year	<u>4,277,728</u>	<u>1,105,000</u>	<u>5,382,728</u>
Total Liabilities	<u>4,641,728</u>	<u>1,280,911</u>	<u>5,922,639</u>
NET ASSETS:			
Investment in capital assets net of related debt	(1,496,685)	819,808	(676,877)
Unrestricted - designated	475,000	838,500	1,313,500
- undesignated	<u>1,137,985</u>	<u>-</u>	<u>1,137,985</u>
Total Net Assets	\$ <u>116,300</u>	\$ <u>1,658,308</u>	\$ <u>1,774,608</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Assets Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 14,160	\$ -	\$ (14,160)	\$ -	\$ (14,160)
General Government	457,333	36,294	(421,039)	-	(421,039)
Public Safety	537,922	12,806	(525,116)	-	(525,116)
Public Works	703,697	143,689	(560,008)	-	(560,008)
Recreation and Cultural	75,379	-	(75,379)	-	(75,379)
Interest	190,794	-	(190,794)	-	(190,794)
Depreciation	124,052	-	(124,052)	-	(124,052)
Total governmental activities	2,103,337	192,789	(1,910,548)	-	(1,910,548)
BUSINESS-TYPE ACTIVITIES					
Water, Sewer, Trash	1,234,045	1,166,117	-	(67,928)	(67,928)
Interest	28,182	-	-	(28,182)	(28,182)
Total business-type activities	1,262,227	1,166,117	-	(96,110)	(96,110)
Total Primary Government	\$ 3,365,564	\$ 1,358,906	(1,910,548)	(96,110)	(2,006,658)
GENERAL PURPOSE REVENUES:					
Property taxes			1,264,195	62,519	1,326,714
State shared revenues			640,682	-	640,682
Unrestricted Investment earnings			82,641	22,783	105,424
Miscellaneous			24,865	7,677	32,542
Total General Purpose Revenues			2,012,383	92,979	2,105,362
Change in Net Assets			101,835	(3,131)	98,704
Net Assets at beginning of year, as adjusted			14,465	1,661,439	1,675,904
Net Assets - End of Year			\$ 116,300	\$ 1,658,308	\$ 1,774,608

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2007

	<u>GENERAL</u>	<u>MAJOR STREETS</u>	<u>DEBT SERVICE</u>	<u>OTHER NONMAJOR FUNDS</u>	<u>TOTAL</u>
ASSETS:					
Cash	\$ 967,633	\$ 50,818	\$ 23,072	\$ 217,449	\$ 1,258,972
Customer receivables	-	-	-	-	-
Other receivables	3,175	-	-	-	3,175
Prepaid expenses	11,390	-	-	-	11,390
Due from other Gov't	-	-	-	-	-
Due from State	-	28,705	-	10,422	39,127
TOTAL ASSETS	\$ 982,198	\$ 79,523	\$ 23,072	227,871	\$ 1,312,664
LIABILITIES:					
Accounts payable	\$ 8,714	\$ 472	\$ -	2,037	\$ 11,223
Deferred revenue	-	-	-	-	-
Accrued expenses	7,358	378	-	822	8,558
Due to other funds	-	-	-	-	-
TOTAL LIABILITIES	16,072	850	-	2,859	19,781
FUND BALANCES:					
Unreserved, reported in:					
General Fund	966,126	-	-	-	966,126
Special Revenue Funds	-	78,673	-	221,354	300,027
Capital Projects Fund	-	-	-	3,658	3,658
Debt Service Fund	-	-	23,072	-	23,072
Total Fund Balances	966,126	78,673	23,072	225,012	1,292,883
TOTAL LIABILITIES AND FUND BALANCES	\$ 982,198	\$ 79,523	\$ 23,072	\$ 227,871	\$ 1,312,664

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
June 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,292,883

Amounts reported for governmental activities in the statement
of net assets are different because -

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds
balance sheet:

Capital assets at cost	2,255,355
Accumulated depreciation	(181,300)
Debt balances are carried in the Long-Term Debt Account Group and are not reported in the Governmental Funds balance sheet	(4,603,645)

An Internal Service fund is used by the City to charge equipment rental
costs to individual funds. The assets and liabilities of the Internal Service
Fund is included in governmental activities of the statement of net assets

Cash	402,913	
Capital assets	1,748,672	
Accumulated depreciation	(780,276)	
Accounts Payable and accrued expenses	<u>(18,302)</u>	
Net adjustment		<u>1,353,007</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 116,300

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended June 30, 2007

	GENERAL	MAJOR STREETS	DEBT SERVICE	OTHER NONMAJOR FUNDS	TOTAL
REVENUES:					
Taxes	\$ 803,465	\$ -	\$ 394,945	\$ 65,785	\$ 1,264,195
State shared revenue	398,898	174,832	-	66,952	640,682
Licenses and permits	36,294	-	-	-	36,294
Charges for Services	532	-	-	-	532
Permits	-	-	-	8,236	8,236
Fines and Forfeits	4,038	-	-	-	4,038
Interest	53,928	3,963	2,918	9,812	70,621
Other Revenue	14,841	-	-	2,503	17,344
	1,311,996	178,795	397,863	153,288	2,041,942
EXPENDITURES:					
Legislative	14,160	-	-	-	14,160
General Government	246,202	-	-	-	246,202
Public Safety	537,922	-	-	-	537,922
Public Works	18,289	99,262	-	146,903	264,454
Cultural and Recreation	75,379	-	-	-	75,379
Other activities	26,436	-	-	22,005	48,441
Insurance/retirement	270,045	24,635	-	28,081	322,761
Capital Outlay	20,510	120,799	-	-	141,309
Debt service	-	-	392,206	-	392,206
Total Expenditures	1,208,943	244,696	392,206	196,989	2,042,834
EXCESS OF REVENUES OVER EXPENDITURES	103,053	(65,901)	5,657	(43,701)	(892)
OTHER FINANCING SOURCES (USES):					
Transfer from other funds	-	-	-	40,000	40,000
Transfer to other funds	(21,382)	(25,418)	-	(489)	(47,289)
Total Other Financing Sources (Uses)	(21,382)	(25,418)	-	39,511	(7,289)
NET CHANGE IN FUND BALANCES	81,671	(91,319)	5,657	(4,190)	(8,181)
FUND BALANCE - July 1, 2006	884,455	169,992	17,415	229,202	1,301,064
FUND BALANCE - June 30, 2007	\$ 966,126	\$ 78,673	\$ 23,072	\$ 225,012	\$ 1,292,883

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (8,181)
Amounts reported for governmental activities in the statement of activities are different because -	
Governmental funds report capital outlays as expenditures while in the statement of activities, these costs are allocated over their estimated lives as depreciation:	
Depreciation expense	(31,782)
Capital asset purchases capitalized	120,799
Principal payments on bonds shown as current expense	211,390
Governmental funds do not report the expenses for compensated absences	(2,630)
An Internal Service fund is used by the City to charge equipment rental costs to individual funds. The net revenue of the Internal Service fund is reported with governmental activities in the statement of activities.	
Change in Net Assets	<u>(187,761)</u>
	<u>(187,761)</u>
TOTAL CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	\$ <u>101,835</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

	Business Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Rubbish & Trash	TOTAL	
ASSETS:					
Current Assets:					
Cash	\$ 335,982	\$ 84,304	\$ 44,290	\$ 464,576	\$ 402,913
Customer receivables	45,762	36,732	23,195	105,689	-
Other receivables	-	-	-	-	-
Prepays	156	323	-	479	-
Total Current Assets	381,900	121,359	67,485	570,744	402,913
Noncurrent Assets:					
Capital Assets:					
Equipment, vehicles	-	-	-	-	1,748,672
Water and sewer systems	2,399,021	531,107	-	2,930,128	-
Accumulated depreciation	(498,800)	(62,853)	-	(561,653)	(780,276)
Total Noncurrent Assets	1,900,221	468,254	-	2,368,475	968,396
Total Assets	\$ 2,282,121	\$ 589,613	\$ 67,485	\$ 2,939,219	\$ 1,371,309
LIABILITIES:					
Current Liabilities					
Accounts payable	\$ 11,463	\$ 33,813	\$ 15,445	\$ 60,721	\$ 18,119
Customer deposits	1,506	1,294	-	2,800	-
Accrued expenses	9,914	2,345	131	12,390	183
Loan payable current	100,000	-	-	100,000	-
Total Current Liabilities	122,883	37,452	15,576	175,911	18,302
Noncurrent Liabilities					
Loans payable	1,105,000	-	-	1,105,000	574,442
Total Noncurrent Liabilities	1,105,000	-	-	1,105,000	574,442
Total Liabilities	1,227,883	37,452	15,576	1,280,911	592,744
NET ASSETS:					
Invested in capital assets net of related debt	508,238	259,661	-	767,899	-
Designated for operations	546,000	292,500	-	838,500	-
Unrestricted	-	-	51,909	51,909	778,565
Total Net Assets	\$ 1,054,238	\$ 552,161	\$ 51,909	\$ 1,658,308	\$ 778,565
Reconciliation of Government Wide Statement of Net Assets:					
Net assets of business-type activities				\$ 1,658,308	

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Business Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Rubbish & Trash	TOTAL	
OPERATING REVENUES:					
Charges for Services	\$ 537,306	\$ 426,569	\$ 202,242	\$ 1,166,117	\$ 143,689
Taxes	-	-	62,519	62,519	-
Miscellaneous	7,551	2,232	-	9,783	869
Total Operating Revenues	544,857	428,801	264,761	1,238,419	144,558
OPERATING EXPENSES:					
Salaries	132,254	87,085	19,549	238,888	35,207
FICA	9,962	6,425	1,495	17,882	2,652
Operating expenses	165,879	30,182	2,997	199,058	180,664
Equipment rental	16,696	17,604	10,558	44,858	-
Water purchases	-	205,825	-	205,825	-
Contractual services	59,182	25,007	198,177	282,366	-
Depreciation	72,569	15,655	-	88,224	92,270
Insurance/retirement	82,358	45,691	28,895	156,944	39,799
Total Operating Expenses	538,900	433,474	261,671	1,234,045	350,592
Operating Income	5,957	(4,673)	3,090	4,374	(206,034)
NONOPERATING REVENUES(EXPENSES)					
Interest Income	13,522	6,289	2,972	22,783	12,020
Sale of Equipment	-	-	-	-	6,652
Interest Expense	(28,182)	-	-	(28,182)	-
Total Nonoperating Expenses	(14,660)	6,289	2,972	(5,399)	18,672
Income before contributions and transfers	(8,703)	1,616	6,062	(1,025)	(187,362)
Transfers Out	(836)	(961)	(309)	(2,106)	(399)
Change in Net Assets	(9,539)	655	5,753	(3,131)	(187,761)
Net Assets Beginning of Year	1,063,777	551,506	46,156	1,661,439	966,326
Net Assets End of Year	\$ 1,054,238	\$ 552,161	\$ 51,909	\$ 1,658,308	\$ 778,565

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
June 30, 2007

	Business Type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Rubbish & Trash	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 616,007	\$ 456,950	\$ 259,910	\$ 1,332,867	\$ 236,828
Cash received from other funds for services	-	-	-	-	-
Other operating cash receipts	-	-	-	-	-
Cash payments to suppliers for goods and services	(395,940)	(345,365)	(240,523)	(981,828)	(300,291)
Cash payments to employees for services	(143,208)	(92,476)	(21,446)	(257,130)	(38,042)
Cash payments to other funds for services	-	-	-	-	-
Net cash provided (used) by operating activities	76,859	19,109	(2,059)	93,909	(101,505)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:					
Transfers from other funds	-	-	-	-	-
Transfers to other funds	(836)	(961)	(309)	(2,106)	(399)
Net cash provided (used) by noncapital financing activities	(836)	(961)	(309)	(2,106)	(399)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets	(30,280)	(157,361)	-	(187,641)	(341,193)
Amounts borrowed for capital improvements	-	-	-	-	574,442
Proceeds from sale of capital assets	-	-	-	-	6,652
Interest paid on loans	(28,182)	-	-	(28,182)	-
Principal payments on loans	(95,000)	-	-	(95,000)	-
Contributed capital	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	(153,462)	(157,361)	-	(310,823)	239,901
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	13,522	6,289	2,972	22,783	12,020
Net increase (decrease) in cash	(63,917)	(132,924)	604	(196,237)	150,017
Cash beginning of year	399,899	217,228	43,686	660,813	252,896
Cash end of year	\$ 335,982	\$ 84,304	\$ 44,290	\$ 464,576	\$ 402,913
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Income (loss) from operations	\$ 5,957	\$ (4,673)	\$ 3,090	\$ 4,374	\$ (206,034)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:					
Depreciation	72,569	15,655	-	88,224	92,270
Change in assets and liabilities:					
(Increase) decrease in due from other funds	-	-	-	-	-
(Increase) decrease in accounts receivable	(1,516)	13,074	(4,850)	6,708	-
(Increase) decrease in prepaids	(156)	(323)	-	(479)	-
Increase (decrease) in accounts payable	(744)	(5,401)	103	(6,042)	12,442
Increase (decrease) in accrued expenses	749	777	(402)	1,124	(183)
Net Cash Provided (Used) in Operating Activities	\$ 76,859	\$ 19,109	\$ (2,059)	\$ 93,909	\$ (101,505)

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF NET ASSETS
TRUST AND AGENCY FUND
June 30, 2007

Cash in Bank	\$ <u>71,562</u>
Due to General Fund	-
Fund Balance -	
Reserved for fringe benefits	<u>71,562</u>
	\$ <u>71,562</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A: DESCRIPTION OF REPORTING ENTITY:

The City of Essexville is located in Bay County and operates under an elected City Council (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B: REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit//burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Essexville has no component units.

C: BASIS OF PRESENTATION:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of the inter-fund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

D: FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Debt Service Fund -

This fund is used to accumulate tax revenues for purposes of making the several interest and principal payments on the bonds.

Propriety Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major propriety funds:

Water, Sewer and Trash Funds -

The Water, Sewer and Trash Funds are used to account for the provision of water and sewer services and the collection of rubbish, trash and yard waste for the residents of the City. Activities of the funds include administration, operation and maintenance of the water system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Propriety funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a propriety fund's principal ongoing operations. Operating expenses for the propriety funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency Funds -

The Fringe Benefit Fund accounts for assets held by the City for funding of future liabilities. The amounts do not involve the measurement of results of operations.

E: Measurement Focus/Basis of Accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide statements and fund financial statements for propriety funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

F: CAPITAL ASSETS:

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Buildings and additions	25-40
	years
Infrastructure	20-40
	years
Land improvements	10-20
	years
Vehicles	5-10
	years
Furniture and other	5-10
equipment	years

G: FUND EQUITY:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

H: COMPARATIVE DATA/RECLASSIFICATIONS:

Comparative data is not included in the City's financial statements.

I: ACCOUNTING CHANGE:

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows: A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included. Entity-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.

J: PROPERTY TAXES:

The City's property taxes are levied and become a lien each July 1st, based on the taxable valuation of property located in the City as of the preceding December 31st. These taxes are due on August 31st or with the final collection date of March 2nd before they are added to the County's delinquent tax rolls. The City's property tax revenues are recognized as revenues in the fiscal year levied to the extent they are measurable and available.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The taxable valuation of City properties totaled \$82,483,093. Ad Valorem taxes levied on this valuation consisted of 9.7266 mills for City operations; .7750 mills for trash collection; 1.00 mills for the Downtown Development Authority; and 4.8951 mills for the general operating bond issues.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law requires the City to have its budget in place by April 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City had no accumulated fund balance deficits.

NOTE 3. LONG TERM DEBT:

During the year the City financed the improvements to a new DPW building by obtaining financing from Independent Bank. Through a series of promissory notes the City borrowed \$ 311,974 which includes interest. The annual payment is expected to be \$ 44,568. Current and long term information was not received from the Bank so the entire amount has been classified as long term.

Also at the end of the year the City received an Act 99 loan from the State of Michigan. Terms were not available so the entire amount of \$ 262,468 is classified as long term.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Other long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Annual Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Deductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>
GOVERNMENTAL ACTIVITIES						
2000 G.O. Bond	5.25	75,000-150,000	\$ 1,300,000	\$ (75,000)	\$ 1,225,000	\$ 100,000
2001 G.O. Bond	4.00	50,000-225,000	1,350,000	(50,000)	1,300,000	75,000
2002 G.O. Bond	4.25	25,000-200,000	<u>1,425,000</u>	<u>(75,000)</u>	<u>1,350,000</u>	<u>75,000</u>
Total Bonds			4,075,000	(200,000)	3,875,000	250,000
Revitalization Loan	0.00	11,399	<u>101,066</u>	<u>(11,390)</u>	<u>89,676</u>	<u>11,390</u>
Total Governmental Activities			<u>\$ 4,176,066</u>	<u>\$ (211,390)</u>	<u>\$ 3,964,676</u>	<u>\$ 261,390</u>
BUSINESS TYPE ACTIVITIES						
Loan payable	2.25	90,000-120,000	<u>\$ 1,300,000</u>	<u>\$ (95,000)</u>	<u>\$ 1,205,000</u>	<u>\$ 100,000</u>

Annual debt service principal requirements:

	<u>G.O. Bonds</u>	<u>Loan Payable</u>
2007	261,390	100,000
2008	261,399	100,000
2009	286,399	100,000
2010	311,399	105,000
2011	361,399	105,000
2012	386,399	110,000
2013	461,399	110,000
2014	509,874	115,000
2015	550,000	120,000
2016	575,000	120,000
2017	-	120,000

Total Debt – Governmental Funds :

Bonds	\$ 3,875,000
Revitalization loan	89,676
Independent Bank	311,974
Act 99	<u>262,468</u>
Total	\$ 4,539,118

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance <u>July 1</u>	Additions/ Retirements/ <u>Completions</u>	<u>Adjustments</u>	Balance <u>June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 824,710	-	\$ -	\$ 824,710
Capital assets being depreciated				
Buildings and improvements	644,542	341,193	-	985,735
Construction in progress	161,182	(161,182)	-	-
Infrastructure	462,187	281,981	-	744,168
Vehicles	1,185,567	-	-	1,185,567
Furniture and equipment	<u>263,847</u>	<u>-</u>	<u>-</u>	<u>263,847</u>
Subtotal	3,542,035	461,992	-	4,004,027
Less accumulated depreciation	<u>837,524</u>	<u>124,052</u>	<u>-</u>	<u>961,576</u>
Net capital assets	<u>\$ 2,704,511</u>	<u>\$ 337,940</u>	<u>\$ -</u>	<u>\$ 3,042,451</u>
Business -type activities:				
Capital assets being depreciated				
Buildings and improvements	1,880,619	-	-	1,880,619
Water and sewer distribution systems	729,500	187,641	-	917,141
Furniture and equipment	<u>132,368</u>	<u>-</u>	<u>-</u>	<u>132,368</u>
Subtotal	2,742,487	187,641	-	2,930,128
Less accumulated depreciation	<u>473,428</u>	<u>88,225</u>	<u>-</u>	<u>561,653</u>
Total net capital assets	<u>\$ 2,269,059</u>	<u>\$ 136,498</u>	<u>\$ -</u>	<u>\$ 2,368,475</u>

NOTE 5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A: LEGAL COMPLIANCE:

Act 217, PA 1982, authorizes the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loans associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase,

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan.

All City deposits were in compliance with state statutes.

B: DEPOSITS:

Deposits are carried at cost. Deposits of the City are maintained at Independent Bank, Wolverine Bank and Standard Federal Bank, federally insured banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the City's cash deposit at June 30, 2007 are as follows:

<u>Deposit</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 300,000
Uninsured and Uncollateralized	<u>1,826,461</u>
Total	<u>\$ 2,126,461</u>

NOTE 6. DEFINED BENEFIT PENSION PLAN:

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan, 48917.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

NOTE 6. DEFINED BENEFIT PENSION PLAN (continued):

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, after retirement. At December 31, 2006, the unfunded actuarial accrued liability was \$932,334 determined as follows:

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 3,380,625
Terminated employees not yet receiving benefits	38,349
Current employees -	
Accumulated employee contributions	
Including allocated investment income	569,466
Employer financed	<u>1,755,025</u>
Total Actuarial Accrued Liability	5,743,465
Net Assets Available for Benefits at Actuarial Value	<u>4,811,131</u>
Unfunded Actuarial Accrued Liability	<u>\$ 932,334</u>

For the fiscal year beginning July 1st, 2008 the annual required contribution based on valuation payroll will be \$ 107,436 based on an amortization factor of .054719.

NOTE 7. RISK MANAGEMENT :

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal League's public entity risk pool providing property and liability

CITY OF ESSEXVILLE
Bay County, Michigan

June 30, 2007

NOTES TO FINANCIAL STATEMENTS

coverage to its participating members. The City pays an annual premium to the Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage of its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any or the past three fiscal years.

The City manages its workers' compensation by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks thorough commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8. RECLASSIFICATION OF RUBBISH AND TRASH FUND:

The City reclassified the Rubbish and Trash Fund from a special revenue fund (governmental fund) to an enterprise fund (business – type activity) since most of the fund's activities are financed through customer charges and receivables are recorded. The beginning net assets for both types of activities were changed from \$ 56,356 to \$ 10,200 for the governmental funds and from \$ 1,615,283 to \$ 1,661,439 for the business – type activities. In addition a correction was made for an error in regard to the improper elimination of due to/from other funds made in the 2005/2006 year of \$ 4,265 which increased the beginning net assets for governmental fund types to \$ 14,465. There were no due to/from other funds to eliminate in 2005/2006 or the 2006/2007 year.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 795,577	\$ 795,577	\$ 803,465	\$ 7,888
State revenue sharing	391,095	391,095	398,898	7,803
Licenses and permits	30,625	30,625	36,294	5,669
Charges for services	50	50	532	482
Interest	28,663	28,663	53,928	25,265
Fines and forfeits	2,400	2,400	4,038	1,638
Other Revenue	16,430	16,430	14,841	(1,589)
Total Revenues	1,264,840	1,264,840	1,311,996	47,156
EXPENDITURES:				
Legislative	17,959	17,959	14,160	3,799
General Government				
City Manager	76,282	76,282	72,861	3,421
Elections	6,950	5,700	3,820	1,880
Mayor	4,499	4,499	4,380	119
Assessor	24,556	24,556	22,423	2,133
Attorney	25,000	31,000	29,283	1,717
Board of Review	857	1,107	968	139
Treasurer	28,227	30,726	28,012	2,714
Clerk	47,635	47,636	44,292	3,344
City Hall	41,883	39,382	36,463	2,919
Accounting and audit	3,700	3,700	3,700	-
Public Safety				
Fire	40,737	43,736	41,180	2,556
Police	505,313	509,314	496,742	12,572
Public Works				
Sidewalk repair	22,057	19,057	3,768	15,289
Department of Public works	18,450	18,450	14,521	3,929
Cultural and Recreation				
Parks and recreation	22,933	31,933	25,643	6,290
Community relations	56,000	55,500	49,736	5,764
Other activities	35,624	30,624	26,436	4,188
Insurance/retirement	382,447	383,446	270,045	113,401
Capital outlay	32,399	27,899	20,510	7,389
Total Expenditures	1,393,508	1,402,506	1,208,943	193,563
OTHER FINANCING SOURCES (USES):				
Transfer to other funds	(25,201)	(25,201)	(21,382)	3,819
NET CHANGE IN FUND BALANCE	(153,869)	(162,867)	81,671	244,538
FUND BALANCE - BEGINNING OF YEAR	884,455	884,455	884,455	-
FUND BALANCE - END OF YEAR	\$ 730,586	\$ 721,588	\$ 966,126	\$ 244,538

CITY OF ESSEXVILLE
Essexville, Michigan

MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Public Act 51	\$ 176,314	\$ 176,314	\$ 174,832	\$ (1,482)
Interest and Other	2,947	2,947	3,963	1,016
Total Revenues	179,261	179,261	178,795	(466)
EXPENDITURES:				
Storm drainage	19,724	15,724	9,472	6,252
Maintenance	30,367	52,366	48,222	4,144
Traffic services	12,858	15,358	12,889	(2,469)
Winter maintenance	35,190	27,689	16,977	(10,712)
Adminiatration	14,961	14,961	11,702	3,259
Capital outlay	80,000	121,000	120,799	201
Insurance/retirement	21,648	25,648	24,635	(1,013)
Total Expenditures	214,748	272,746	244,696	(338)
EXCESS REVENUES OVER EXPENDITURES	(35,487)	(93,485)	(65,901)	27,584
OTHER FINANCING SOURCES (USES)				
Transfer to other fund	(25,559)	(25,559)	(25,418)	141
Excess (deficiency) of revenues over expenditures and other uses	(61,046)	(119,044)	(91,319)	27,725
FUND BALANCE - BEGINNING OF YEAR	169,992	169,992	169,992	-
FUND BALANCE - END OF YEAR	\$ 108,946	\$ 50,948	\$ 78,673	\$ 27,725

CITY OF ESSEXVILLE
Essexville, Michigan

BOND DEBT SERVICE
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2007

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 395,944	\$ 395,944	\$ 394,945	\$ (999)
Interest	594	-	2,918	2,918
Total Revenues	396,538	395,944	397,863	1,919
EXPENDITURES:				
Principal	200,000	200,000	200,000	-
Interest	192,594	192,594	190,794	(1,800)
Contractual	3,000	3,000	1,412	(1,588)
Total Expenditures	395,594	395,594	392,206	(3,388)
EXCESS REVENUES OVER EXPENDITURES	944	350	5,657	5,307
FUND BALANCE - BEGINNING OF YEAR	17,415	17,415	17,415	-
FUND BALANCE - END OF YEAR	\$ 18,359	\$ 17,765	\$ 23,072	\$ 5,307

OTHER SUPPORTING INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan

COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
June 30, 2007

	- SPECIAL REVENUE FUNDS -					CAPITAL PROJECTS FUND	
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection	Total Special Revenue Funds	Street Repairs & Construction	TOTAL
<u>ASSETS</u>							
Cash	\$ 61,770	\$ 143,091	\$ 8,439	\$ 491	\$ 213,791	\$ 3,658	\$ 217,449
Due from State	10,422	-	-	-	10,422	-	10,422
Prepaid Expenses	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-
Due from Dbt Fund	-	-	-	-	-	-	-
Total Assets	\$ 72,192	\$ 143,091	\$ 8,439	\$ 491	\$ 224,213	\$ 3,658	\$ 227,871
<u>LIABILITIES AND FUND BALANCE</u>							
Due to General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	2,037	-	-	2,037	-	2,037
Accrued payroll	263	180	-	379	822	-	822
	263	2,217	-	379	2,859	-	2,859
Fund balance	71,929	140,874	8,439	112	221,354	3,658	225,012
	\$ 72,192	\$ 143,091	\$ 8,439	\$ 491	\$ 224,213	\$ 3,658	\$ 227,871

CITY OF ESSEXVILLE
Essexville, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	- SPECIAL REVENUE FUNDS -					CAPITAL PROJECTS FUND	
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection	Total Special Revenue Funds	Street repairs & Construction	TOTAL
REVENUES:							
State Shared Revenue	\$ 63,469	\$ -	\$ 3,483	\$ -	\$ 66,952	\$ -	\$ 66,952
Property Taxes	-	65,785	-	-	65,785	-	65,785
Permits	-	-	-	8,236	8,236	-	8,236
Interest	2,210	7,059	359	-	9,628	184	9,812
Other Revenues	3	2,500	-	-	2,503	-	2,503
	65,682	75,344	3,842	8,236	153,104	184	153,288
EXPENDITURES:							
Public Works	68,977	77,926	-	-	146,903	-	146,903
Insurance/Retirement	24,946	-	-	3,135	28,081	-	28,081
Other Activities	-	-	1,440	20,065	21,505	500	22,005
Capital Outlay	-	-	-	-	-	-	-
Total Expenditures	93,923	77,926	1,440	23,200	196,489	500	196,989
EXCESS OF REVENUES OVER EXPENDITURES	(28,241)	(2,582)	2,402	(14,964)	(43,385)	(316)	(43,701)
OTHER FINANCING SOURCES:							
Transfers from (to) other funds	24,511	-	-	15,000	39,511	-	39,511
NET CHANGES IN FUND BALANCE	(3,730)	(2,582)	2,402	36	(3,874)	(316)	(4,190)
FUND BALANCE - July 1, 2006	75,659	143,456	6,037	76	225,228	3,974	229,202
FUND BALANCE - June 30, 2007	\$ 71,929	\$ 140,874	\$ 8,439	\$ 112	\$ 221,354	\$ 3,658	\$ 225,012

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2007

	<u>ACTUAL</u>
REVENUES:	
Advalorem taxes -	
Current taxes	\$ 782,069
Interest, penalties and fees	21,396
Total Advalorem Taxes	<u>803,465</u>
Licenses and Permits -	
Cable television	35,665
Cat/dog/liquor licenses	174
Miscellaneous	455
Total Licenses and Permits	<u>36,294</u>
State Revenues -	
Sales taxes	387,957
Total State Revenues	<u>387,957</u>
Charges for Services -	
Service fees	532
Total Charges for Services	<u>532</u>
Fines and Forfeits -	
Ordinance fines	3,033
Parking fines	1,005
Total Fines and Forfeits	<u>4,038</u>
Miscellaneous -	
Investment	53,928
Metro Act	10,941
Lease	12,128
Miscellaneous	2,713
Total Miscellaneous	<u>79,710</u>
Total Revenues	\$ <u><u>1,311,996</u></u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2007

	<u>ACTUAL</u>
EXPENDITURES:	
Legislative -	
City Council	
Salaries	\$ 6,000
FICA	459
Other expenses	7,701
Total City Council	<u>14,160</u>
General Government -	
Mayor	
Salaries	1,300
FICA	99
Other expenses	2,981
Total Mayor	<u>4,380</u>
City Manager	
Salaries	63,372
FICA	4,768
Other expenses	4,721
Total City Manager	<u>72,861</u>
Elections	
Salaries	2,930
Other expenses	890
Total Elections	<u>3,820</u>
Assessor	
Salaries	14,865
FICA	1,137
Other expenses	6,421
Total Assessor	<u>22,423</u>
City Attorney	
Supplies and Fees	29,283
City Clerk	
Salaries	26,575
FICA	2,022
Other expenses	15,695
Total City Clerk	<u>44,292</u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2007

	<u>ACTUAL</u>
EXPENDITURES:	
General Government (cont.)	
Accounting and Audit	
Audit	\$ 3,700
Total Accounting and Audit	<u>3,700</u>
 Board of Review	
Salaries	750
FICA	57
Other expenses	<u>161</u>
Total Board of Review	968
 Treasurer	
Salaries	16,954
FICA	1,256
Other expenses	<u>9,802</u>
Total Treasurer	28,012
 City Hall	
Salaries	6,375
FICA	480
Other expenses	<u>29,608</u>
Total City Hall	36,463
 Total General Government	\$ <u>246,202</u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2007

	<u>ACTUAL</u>
EXPENDITURES:	
Public Safety -	
Fire Department	
Salaries	\$ 20,553
FICA	1,841
Other expenses	11,177
Equipment	<u>7,609</u>
Total Fire Department	41,180
Police Department	
Salaries	397,478
FICA	30,370
D.A.R.E. expenses	30
Other expenses	<u>68,864</u>
Total Police Department	<u>496,742</u>
 Total Public Safety	 537,922

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2007

	<u>ACTUAL</u>
EXPENDITURES:	
Public Works -	
Department of Public Works	
Salaries	\$ -
FICA	-
Other expenses	14,521
Total Department of Public Works	<u>14,521</u>
Sidewalk Repair and Construction	
Salaries	2,073
FICA	156
Other expenses	1,539
Total Sidewalk Repair and Construction	<u>3,768</u>
Public Rights of Way	
Salaries	-
FICA	-
Other expenses	-
Total Public Rights of Way	<u>-</u>
 Total Public Works	 18,289

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2007

	<u>ACTUAL</u>
EXPENDITURES:	
Culture and recreation -	
Parks and Recreation	
Salaries	\$ 4,667
FICA	351
Other expenses	20,625
Total Parks and Recreation	<u>25,643</u>
Community Relations	
Civic Betterment	4,515
Community Schools	-
Street Lights	45,221
Total Community Relations	<u>49,736</u>
Total culture and recreation	<u>75,379</u>
Other activities -	
Forestry	
Salaries	7,844
FICA	592
Other expenses	11,322
Total Forestry	<u>19,758</u>
Planning and Board of Appeals	
Salaries	-
FICA	-
Other expenses	6,678
Total Planning and Board of Appeals	<u>6,678</u>
Total Other Activities	<u>26,436</u>
Insurance/retirement	270,045
Capital projects	20,510
OTHER FINANCING SOURCES AND (USES):	
Transfer to other funds	<u>(21,382)</u>
TOTAL EXPENDITURES	1,230,325
EXCESS OF REVENUES OVER EXPENDITURES	81,671
FUND BALANCE - July 1, 2006	<u>884,455</u>
FUND BALANCE - June 30, 2007	<u><u>966,126</u></u>

Quast, Janke and Company, P.C.

Certified Public Accountants

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Michigan Association of C.P.A.'s

November 30, 2007

Mr. Dale Majerczyk, City Manager
City of Essexville
1107 Woodside Avenue
Essexville, MI 48732

Dear Mr. Majerczyk,


In planning and performing our audit of the financial statements of the City of Essexville for the year ended June 30, 2007, we considered the internal control structure to determine our auditing procedures necessary to express an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter by nature is critical, that is, only deficiencies are noted, and it does not include our observations on the many strong features of the organization's internal control. This letter addresses those items that we are required to bring to your attention. Accordingly, this letter does not recite the significant changes that have been made to the accounting system in correcting prior deficiencies nor does it reflect on the many sound controls and level of proficiency and knowledge of the accounting system and its personnel.

In reviewing your budget for the year ended June 30th, 2007, we noticed areas of the budget not in compliance with Public Act 621 of 1978 (The Uniform Budget and Accounting Act). Section 18(3) of that Act prohibits the City from incurring expenditures in excess of the amount appropriated. The following variance was noted :

	<u>Budgeted</u>	<u>Expended</u>	<u>Variance</u>
DIDA Fund -			
Administration	12,877	12,967	90
Internal Service Fund -			
Salaries	30,493	35,207	4,714
Capital Outlay	29,500	33,594	4,094

We suggest that the budget be reviewed periodically so amendments can be made prior to the expenditure of any funds that exceed the budgeted amount. This letter has been prepared for your information and may be distributed at your discretion.


QUAST, JANKE AND COMPANY
Certified Public Accountants, P.C.